DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

IN THE MATTER OF the Joint Application of NorthWestern Corporation and Babcock & Brown Infrastructure Limited, BBI US Holdings Pty Ltd., BBI US Holdings II Corp., and BBI Glacier Corp. for Approval of the Sale and Transfer of NorthWestern Corporation Pursuant to a Merger Agreement	))))))	UTILITY DIVISION DOCKET NO. D2006.6.82

Direct Testimony of

ANN ENGLISH GRAVATT
Policy Director
Renewable Northwest Project

on behalf of

District XI Human Resource Council
Natural Resources Defense Council
Renewable Northwest Project

December 15, 2006

Q. **Please state your name, affiliation and business address.**

A. My name is Ann English Gravatt and I am the Policy Director of the Renewable Northwest Project (RNP). My business address is 917 S.W. Oak Street, Suite 303, Portland, Oregon 97205.

Q. **Please state your qualifications**.

A. As Policy Director of RNP, I promote policy initiatives for renewable energy before state legislatures and regulatory commissions in Oregon, Montana and Washington. I work with many utilities in the Northwest on issues related to renewable energy and participate in utility resource portfolio planning processes. I also work with other environmental and consumer organizations, industry groups and government agencies on renewable energy and climate change issues. The nature of my work requires me to be familiar with utility practice and procurement.

I have worked for RNP since 2002. Prior to RNP, I practiced energy, natural resources and environmental law in Portland, Oregon and Washington, D.C.

Q. Have you previously appeared before this and other Commissions?

A. Yes, I have testified several times before the Montana PSC, including the Basin Creek and Judith Gap advanced approval proceedings. I have appeared on numerous occasions before the Oregon and Washington regulatory commissions on issues related to renewable energy. I have also been involved in other utility acquisition proceedings in Oregon, including the application by the Oregon Electric Utility Company, LLC (the Texas Pacific Group) to acquire Portland General Electric. This application was ultimately denied by the Oregon Public Utility Commission. I was also closely involved with MidAmerican Energy Holding Company's successful acquisition of PacifiCorp from Scottish Power earlier this year.

Q. Please state the parties for whom you are offering testimony.

A. Human Resource Council, District XI, Renewable Northwest Project, and Natural Resources Defense Council (NRDC).

Q. Briefly outline those parties involvement in Montana energy issues.

A. All three parties have been engaged in energy issues in Montana for many years. Dr. Power's testimony discusses Human Resource Council, District XI's participation in Commission dockets for nearly 30 years. RNP and NRDC have also participated, both formally and informally, in Commission proceedings, have been engaged in legislative activities, and been active in other regional forums, such as the Comprehensive Review, out of which came Montana's Universal System Benefits law. All three parties have sought to ensure responsible energy development and the delivery of low-cost, reliable, and clean energy supplies to Montana consumers. Accordingly, the parties have been actively involved in issues related to the efficient use of energy, low-income energy services, and environmentally preferred renewable power generation in Montana.

Q. Why is this transaction significant?

A. As just discussed, we have been intimately involved with energy issues in the state of Montana and, in particular, with the activities of the state's largest utility, NorthWestern Energy (NWE) and its predecessor the Montana Power Company. The nature and quality of the ownership of NWE is a matter of vital interest for the obvious reason that whoever owns the utility will establish its direction and policies.

Q. **Does the timing of this proposed transaction matter?**

A. Yes, it does. This transaction arrives at a critical time, for many reasons. First, after many fits and starts, renewable resources, namely the Judith Gap wind project, have achieved a toehold in Montana. But the potential of renewable resources in Montana has yet to be realized, while at the same time economic, political, and social pressures are demanding the continued development of renewable resources. Babcock & Brown Infrastructure (BBI), or any new owner of NWE, must expand the development of Montana's robust renewable resources and confront and address any issues that are impeding that development.

Second, it is quite possible that changes in the law will be enacted that will allow the NWE to own and rate base generation. This will require the new owner to make

critical and long-lasting decisions about the mix of energy resources and their associated environmental and economic impacts.

Third , NWE has acknowledged the need to expand demand side management (DSM) programs in order to give its customers access to all cost-effective savings. As is well known, well designed and executed DSM programs are essential to overcoming extensive market barriers that obstruct realization of these benefits. Consequently, the new owner of NWE must be fully committed to these efforts.

Fourth, increasing energy costs have imposed significant burdens on Montana's low-income population. This necessitates awareness on the part of NWE, and whoever its owner is, of the Company's continuing obligation to assist low-income customers.

Finally, the enormous financial and environmental risks of global warming are now front and center, not just in university classrooms but in Washington, D.C. and utility boardrooms. New ownership will have to quickly come to grips with the reality that continued business-as-usual reliance on conventional fossil fuel generation is no longer a viable option for utilities.

Q. **What is it about this transaction that is particularly appealing to you?**

A. The long-term investment perspective that BBI brings to the transaction is rare and appealing. In addition, BBI's experience with developing and operating wind power projects is very intriguing.

Renewable Energy

Q. Please put Montana's wind power development in a regional context.

A. Judith Gap, the state's first commercial scale wind development, came on line at the end of 2005. The completion of the Judith Gap project marked the culmination of at least five years effort (and three Request for Proposals) by NWE and Montana Power to acquire a wind project. That it took so long is striking given the strength of Montana's wind resources. In the years preceding the Judith acquisition, other states in the region were aggressively developing their wind resource. Today Montana has about 145 MWs of wind power operating, as compared to over 800 MWs of wind in Washington and

around 440 MWs in Oregon, both states with a moderate wind resource compared to Montana. Other neighboring states have also recently developed wind power projects: Wyoming now has just under 290 MW and North Dakota has around 125 MWs. with more on the way.

Q. Do you have any concerns with respect to future wind power development in Montana?

A. I'm concerned that this history will repeat itself and that NWE will proceed haltingly towards additional wind or other renewable energy acquisitions. At the end of the day (or decade) I fully expect the development of additional Montana wind energy -- because it is too good a resource not to be utilized. Montana and its citizens should not have to wait to get the benefits of reduced risk, economic development, and clean air from its homegrown resources.

Q. **What do you expect of NWE and BBI insofar as renewable resource development is concerned?**

A. As noted, NWE has recently made a significant wind acquisition. Judith Gap is an important first step. NWE made a very sound business decision to secure that project, as it is now providing very low cost and clean energy for its customers.

We expect the applicants, particularly given BBI's wind power experience, to grow NWE's investment in new renewables. At the very least, NWE must obviously meet the target created by SB 415, the states's Renewable Energy Standard, which means 15% of its load will be met with new renewables by 2015. Given that NWE already has about 7% with Judith Gap, the additional increments of 10% by 2010 and 15% by 2015 are modest targets, allowing the Company plenty of time to continue to gain operating experience with Judith Gap while starting to explore the addition of other renewables to its resource mix. Further, we expect NWE to work constructively with stakeholders on amendments to SB 415 that will be proposed in the 2007 legislature in order to improve and clarify the current cost cap language.

There are many opportunities to expand the development of Montana's robust renewable resources, although we recognize that, like any emerging energy resource,

there are challenges associated with its deployment on a large scale. We expect NWE and BBI to commit to study and ultimately solve any wind integration issues and to explore with others transmission opportunities to access additional renewable resources in Montana.

Specifically, it is essential that NWE continue its active involvement in the Northwest Wind Integration Action Plan, convened by the Northwest Power and Conservation Council and the Bonneville Power Administration in August 2006. This group has discussed cooperative strategies, such as area control error (ACE) sharing, standardized regulating resource products, and regional wind forecasting, that could help control areas manage the variability in their systems. This kind of regional cooperation is particularly significant for NWE and wind development in Montana.

Finally, NWE must ensure that Judith Gap is operating as productively and efficiently as possible. Certainly, there have been the usual start-up issues associated with any new resource. It is also true that the wind's variability at the project, particularly on an intra-hour basis, is presenting more of an issue than anticipated. But, some of the difficulties at the Judith project had nothing to do with the wind. A lack of communication between NWE default supply, NWE transmission, the scheduling agent, and Invenergy, the project's owner and operator, at least in the initial months of project operation, was clearly not helpful. Nor was it appropriate for NWE to take over a year after the project was approved by the PSC to get the meteorological towers up and transmitting data.

Q. **Do you think that BBI's involvement could be helpful with respect to wind?**

A. Yes, as I mentioned above, we are encouraged by BBI's experience with wind power resources. We would expect that with BBI's guidance NWE could continue to study its system and the wind resources available to it to determine how to integrate additional wind and renewable resources. With additional analysis, NWE will know what sort of additional products, if any – such as load following, regulating or additional transmission – are needed to acquire additional wind or other renewable resources. BBI's expertise could also be valuable in addressing transmission limitations both within Montana and outside the state.

Efficiency Acquisition

Q. Briefly describe NWE's efforts to include efficiency in its portfolio of resources.

A. In the early to mid 1990s, NWE, then Montana Power, had a fairly aggressive program to acquire efficiency. With the approach of deregulation, the program fell by the wayside. After deregulation, the utility was reluctant to resume its efforts, arguing to the Commission, for example, in the 2001 default supply portfolio proceeding, that demand side resources were not resources to be acquired and included in a portfolio. After this position was rejected, NWE began to develop a demand side management program. Although it took several years, NWE has now begun to acquire MWs – at a rate of about 5 aMW per year. The Company is to be commended for its efforts. Relative to other Montana utilities, NWE is the only one that has made any real attempt to acquire this largely untapped resource. But there is ample room for improvement. In the 2006 default supply plan, for example, when determining the amount of cost-effective demand-side resource potential in its service territory, NWE used a value of $45.00 for avoided costs, despite the fact that this number was significantly lower than the costs for new supply side resources. Again, the Commission had to admonish the utility as to the inappropriateness of its approach.

Q. What are your expectations with respect to the acquisition of demand-side resources by NWE?

A. NWE must aggressively acquire all cost-effective efficiency on its system. This means that NWE must devote sufficient resources, including staff, to the task. It means assessing whether the lost revenue recovery mechanism is the best possible method of removing the disincentive to utility investments in conservation and achieving fairness for the utility and ratepayer. It means an updated and expanded estimate of the amount of cost-effective demand side resource on the system. Finally, it means accelerating the acquisition of the resource. There is no reason why the benefits to Montana ratepayers from efficiency acquisition should be accrued across so many years.

Global Warming and Coal

Q. Please state your views on global warming and the use of coal as an energy source.

A. Emissions of global warming pollutants are presently causing climatic changes in the state of Montana, the northwest United States, and the world. Already, climate disruption is affecting our economy, to say nothing of the natural systems on which we depend and around which we have constructed our society. If significant reductions in these emissions do not occur in the next decade or two, it will be nearly impossible to avoid the devastating impacts that will accompany widespread and severe global warming.

Coal fired power plants are responsible for a significant percentage of global warming pollution. Power plants are the largest source of U.S. carbon dioxide (CO_2) emissions, accounting for 39 percent of the nation's energy-related emissions, and most of these emissions – some 82% – come from coal plants. In fact, coal plants produce one-third of America's CO_2 emissions—about the same amount as all our cars, SUVs, trucks, buses, planes, ships, and trains combined.

In sum, there is no getting a handle on global warming without controlling emissions of CO_2 from coal plants. Since federal legislation controlling carbon is inevitable and imminent, additional long-term utility commitments to conventional coal fired generation are highly imprudent.

Indeed, utilities understand that the landscape has changed. Five of the CEO's of the nation's ten largest power companies now publicly advocate federal controls on carbon. Just two days ago, the CEO of Portland General Electric called for mandatory limits on greenhouse gas emissions.

Q. Do you know where BBI stands on the subject of global warming and coal?

A. Based on responses to data requests, they appear to have taken no corporate position on the subject. What is most disturbing, however, is that in its offer to purchase NWE, BBI touted its experience with coal resources and its willingness to bring that

experience to develop more coal resources in Montana. In suggesting the possibility of new coal plants in Montana BBI made no mention of carbon and global warming.

Q. Please react to BBI's statement, alluded to above, in its offer to purchase NWE.

A. Simply put, it's unacceptable. We expect BBI to reconsider its position on coal development in light of the urgent challenge of global warming, and we will oppose any plans by NWE to acquire additional conventional coal resources.

Q. **Does this conclude your testimony?**

A. Yes.